

TOWN OF MIDDLETOWN, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2009

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YEAR ENDED JUNE 30, 2009

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Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Independent Auditors' Report

The Honorable President and
Members of the Town Council
Town of Middletown, Rhode Island
Middletown, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island (the Town) as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island as of June 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2009 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Independent Auditors' Report (Continued)

The Honorable President and
Members of the Town Council
Town of Middletown, Rhode Island

The Management's Discussion and Analysis, budgetary comparison schedules and historical pension information on pages 3 to 14 and pages 66 to 73 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary tax collector's annual report on pages 74 and 75 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hefkowitz, Jai Jankel, Charpi & DeGuzo, P.C.

December 18, 2009

Management's Discussion and Analysis

As management of the Town of Middletown, Rhode Island (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009 (FY 2009).

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2009 by \$51,381,645 (*net assets*). Net assets include \$34,109,950 invested in capital assets, net of related debt; \$6,746,338 of restricted net assets; and \$10,525,357 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$94,965,121 and total liabilities were \$43,583,476 at June 30, 2009. Total net assets increased by \$1,826,708 in the current fiscal year.

As of June 30, 2009, the Town's governmental funds reported combined ending fund balances of \$18,407,745, a decrease of \$8,625,817 in comparison with the prior year. The expenditure of prior year bond proceeds in the Capital Projects Fund and unfavorable fiscal year results in the General Fund and other governmental funds, partially offset by favorable conditions in the School Department, resulted in the net decrease in fund balance.

As of June 30, 2009, the unreserved fund balance for the General Fund was \$4,614,643, or 9.3% of total budgeted 2009 General Fund expenditures and other financing uses (\$49,372,363). This portion is unreserved and available for spending at the Town's discretion.

The Town's long-term obligations increased by \$3,293,490 (9.2%) during the current fiscal year. The key factors in this increase were the issuance of \$399,690 of capitalized leases, \$2,713,100 of clean water loan proceed drawdowns, and the recognition of \$3,138,000 for pollution remediation obligations (GASB 49), less the repayment of principal of \$2,776,688.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. These basic financial statements are comprised of three components:

- government-wide financial statements
- fund financial statements, and
- notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

Government-wide financial statements (continued). The *statement of net assets* presents information on the entire Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, sanitation, education, library, planning and inspection, and community services. The business-type activities of the Town include a Sewer Fund, a Parks and Recreation Fund and a Refuse and Recycle Fund.

The government-wide financial statements can be found on pages 15 and 16 of this report.

In the statement of activities, the operations of the Town are presented in a format that reports the net of expenses and revenues of its individual functions – the objective being to report the relative burden of each of the Town's functions to the taxpayers. Revenues offsetting related functional expenses are separated into three categories: charges for services, operating grants and contributions, and capital grants and contributions.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Governmental funds (continued). The Town maintains approximately thirty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the School Department and the Capital Projects Fund, all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary funds. Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Two of the Town's enterprise funds, Sewer Fund and Parks and Recreation Fund, are major funds. The Refuse and Recycle Fund is a nonmajor fund. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 21-24 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-65 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. It presents a schedule detailing the Town's progress in funding its pension benefits obligation, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 66-73 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$51,381,645 at June 30, 2009.

Government-wide Financial Analysis (Continued)

Net assets invested in capital assets, net of related debt, makes up \$34,109,950, or 66.4%, of total net assets. This represents the Town's investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Middletown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$23,035,083	\$31,129,775	\$ 4,413,969	\$ 4,450,460	\$27,449,052	\$35,580,235
Capital assets	46,076,488	36,227,997	21,439,581	18,037,111	67,516,069	54,265,108
Total assets	69,111,571	67,357,772	25,853,550	22,487,571	94,965,121	89,845,343
Long-term liabilities outstanding	27,408,957	25,768,665	11,761,747	10,108,549	39,170,704	35,877,214
Other liabilities	3,442,014	2,935,466	970,758	1,477,726	4,412,772	4,413,192
Total liabilities	30,850,971	28,704,131	12,732,505	11,586,275	43,583,476	40,290,406
Net assets:						
Invested in capital assets, net of related debt	24,432,116	13,294,087	9,677,834	7,928,562	34,109,950	21,222,649
Restricted	6,746,338	13,455,239			6,746,338	13,455,239
Unrestricted	7,082,146	11,904,315	3,443,211	2,972,734	10,525,357	14,877,049
Total net assets	\$38,260,600	\$38,653,641	\$13,121,045	\$10,901,296	\$51,381,645	\$49,554,937

A portion of the Town's net assets, totaling \$6,746,338 (13.0%), represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$181,258 is permanently restricted and is nonexpendable. *Unrestricted net assets*, totaling \$10,525,357, may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2009, the Town is able to report positive balances in all three categories of net assets both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities decreased the Town's net assets by \$393,041, due to expenses for governmental activities being more than anticipated, and revenues being unfavorable.

Business-type activities. Business-type activities increased the Town's net assets by \$2,219,749. Key elements of this increase include increased sewer user fees, which were raised for debt service payments, and the investment in capital items.

Government-wide Financial Analysis (Continued)

Town of Middletown's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 3,778,136	\$ 4,004,056	\$ 6,456,373	\$ 6,213,915	\$ 10,234,509	\$ 10,217,971
Operating grants and contributions	16,319,921	16,675,718	166,750	160,250	16,486,671	16,835,968
Capital grants and contributions	240,570	961,412			240,570	961,412
General revenues:						
Property taxes	38,581,791	36,929,501			38,581,791	36,929,501
Grants and contributions not restricted to specific programs	2,757,540	3,310,854		845,084	2,757,540	4,155,938
Other	467,430	1,024,174	43,238	86,771	510,668	1,110,945
Total revenues	62,145,388	62,905,715	6,666,361	7,306,020	68,811,749	70,211,735
Expenses:						
General government	7,215,075	3,475,990			7,215,075	3,475,990
Public safety	11,551,825	11,105,029			11,551,825	11,105,029
Public works/sanitation	2,969,102	3,457,115			2,969,102	3,457,115
Planning/inspection	589,549	541,626			589,549	541,626
Library	836,568	844,003			836,568	844,003
Education	37,361,388	37,281,173			37,361,388	37,281,173
Community services	516,593	416,171			516,593	416,171
Interest on long-term debt	920,120	899,285			920,120	899,285
Refuse and recycling			1,138,305	830,957	1,138,305	830,957
Parks and recreation			1,297,225	1,226,319	1,297,225	1,226,319
Sewer			2,589,291	2,652,552	2,589,291	2,652,552
Total expenses	61,960,220	58,020,392	5,024,821	4,709,828	66,985,041	62,730,220
Increase in net assets before transfers	185,168	4,885,323	1,641,540	2,596,192	1,826,708	7,481,515
Transfers	(578,209)	(347,743)	578,209	347,743	-	-
Increase (decrease) in net assets	(393,041)	4,537,580	2,219,749	2,943,935	1,826,708	7,481,515
Net assets – beginning	38,653,641	34,116,061	10,901,296	7,957,361	49,554,937	42,073,422
Net assets – ending	\$ 38,260,600	\$ 38,653,641	\$ 13,121,045	\$ 10,901,296	\$ 51,381,645	\$ 49,554,937

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Financial Analysis of the Government's Funds (Continued)

Governmental funds (continued). As of June 30, 2009, the Town's governmental funds reported combined ending fund balances of \$18,407,745. Of this amount, \$13,799,633 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$737,067), 2) to generate income to pay for the perpetual care of the municipal cemetery (\$122,650), 3) for long-term notes receivable (\$100,000), 4) to liquidate claims for stormwater management (\$3,138,000), and 5) prepaid expenses and other restricted purposes (\$510,395).

The General Fund is the chief operating fund of the Town. At June 30, 2009, unreserved fund balance of the General Fund was \$4,614,643 with no designations (see Note 2 to the basic financial statements), while total fund balance declined to \$8,941,497. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.8% of total General Fund expenditures and other financing uses (\$47,015,323), while total fund balance represents 19.0% of that same amount. The fund balance of the Town's General Fund decreased by \$592,055 during the fiscal year ended June 30, 2009.

The School Department, a special revenue fund of the Town, had an unreserved fund balance at June 30, 2009 of \$2,154,430, with \$300,000 designated to balance the fiscal 2010 budget. The resulting unreserved-undesignated fund balance is \$1,854,430, representing 4.9% of total School Department expenditures (\$37,960,394).

The Capital Projects Fund is where the Town accounts for the ongoing capital projects resulting from general obligation bond proceeds in 2002, 2004, 2007 and 2008. Fund balance decreased by \$7,636,438 in FY 2009 due to ongoing construction projects. At June 30, 2009, the ending fund balance is (\$602,317), which will be recovered from general obligation bonds and grant revenue as the Town completes various construction projects.

Proprietary funds. The Town's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Sewer Fund at June 30, 2009 amounted to \$8,829,123, of which \$2,962,570 is unrestricted. Parks and Recreation Fund net assets amounted to \$4,180,337, of which \$496,392 is unrestricted. Refuse and Recycle Fund net assets amounted to \$111,585, of which (\$15,751) is unrestricted. The total growth and (reduction) in net assets for each of the three funds was \$2,292,749, (\$184,585) and \$111,585, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY 2009 totaled a decrease in revenue of approximately \$280,000, primarily due to State budget cuts in revenue sharing and the motor vehicle tax. Further, there was an increase in budgeted expenditures of approximately \$900,000. Major items resulting in this increase are as follows:

- \$218,000 increase in Public Works and Sanitation to fund the Easton's Bay Stormwater Project Supplemental Environmental Program (SEP) analysis and documentation
- \$341,000 increase in General Government to fund ongoing legal fees related to other litigation
- For Capital Outlay, \$96,000 increase to fund Aquidneck Corporate Park engineering, \$120,000 increase for vehicles, building improvements and IT infrastructure improvements, and \$250,000 decrease to reduce budgeted costs related to the Linden School demolition
- \$127,000 increase in Other expenditures to fund additional severance outlay and a restricted appropriation to the OPEB Fund, \$430,000 increase to fund legal settlements, and \$112,000 decrease attributed to contingent expenses
- Reappropriated fund balance increased to fund legal settlements and emergency Town Hall building improvements

Differences between expenditures actually incurred and those budgeted totaled approximately \$2,200,000. The major factors contributing to this favorable decrease are as follows:

- Budgeted Capital Outlay projects were deferred to fiscal year 2010
- Grants budgeted for planning were not awarded, offset by unexpected federal grants (e.g., Homeland Security and Riptide)
- \$112,000 budgeted for contingencies was not expended; \$140,000 budgeted for employee benefits was unrealized
- Position vacancies in the Police and Fire Departments resulted in a favorable difference of approximately \$240,000
- Overall spending freezes and limitations in all departments mandated by the Town Manager resulted in a favorable decrease in General Government

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounts to \$67,516,069 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total increase in the Town's investment in capital assets for the current fiscal year was \$13,250,961 (24.4%), of which \$9,848,491 increased for governmental activities and \$3,402,470 increased for business-type activities.

Capital Asset and Debt Administration (Continued)

Capital assets (continued). Major capital asset events during the current fiscal year included the following:

- Residential street upgrades encompassing sewer lines, water lines, improved drainage, and road re-pavement
- School Department renovations to a multi-age learning center, and tennis and basketball courts; upgraded computer and fire alarm systems; paving of the Gaudet Middle School back parking lot; and purchase of a planetarium projector
- Purchase of a building inspector vehicle and various public safety vehicles, including police cruisers and a fire pumper
- Continued construction of a new police station
- Purchase of land for open space
- Renovations to the Town Hall building, including replacing a water main and upgrading the sprinkler system and fire alarm control panel
- Demolition of the Linden School building and transformation of the area into a park and playground
- Purchase of computer hardware and software for the implementation of a new accounting system
- Renovations to the beach building, including roof, restroom, deck, office repairs and upgrades, and purchase of a shade canopy system

Town of Middletown's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 7,291,781	\$ 5,653,615	\$ 2,779,046	\$ 2,751,380	\$10,070,827	\$ 8,404,995
Buildings and improvements	10,047,609	10,251,899	205,357	95,876	10,252,966	10,347,775
Land improvements	1,845,994	1,192,603	662,171	611,640	2,508,165	1,804,243
Furniture and equipment	984,121	705,209	1,444,801	1,039,712	2,428,922	1,744,921
Infrastructure	13,969,095	14,296,004	12,076,136	10,860,804	26,045,231	25,156,808
Construction in progress	10,625,561	2,721,585	4,159,907	2,562,138	14,785,468	5,283,723
Library books	57,018	90,657			57,018	90,657
Motor vehicles	1,255,309	1,316,425	112,163	115,561	1,367,472	1,431,986
Total	\$46,076,488	\$36,227,997	\$21,439,581	\$18,037,111	\$67,516,069	\$54,265,108

The Town's active construction projects as of June 30, 2009 include the new police facility, residential street paving, and drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2009 total approximately \$619,000. The commitments for the residential street paving and road drainage are funded primarily through general obligation bonds. The commitments for sanitary sewer upgrades are funded through loans from the Rhode Island Clean Water Finance Agency.

Additional information on the Town's capital assets can be found in Notes 5 and 12 on pages 41-44 and 63, respectively, of this report.

Long-term debt

At June 30, 2009, the Town had total bonded debt outstanding of \$18,920,000, entirely backed by the full faith and credit of the Town. In addition, the Town has \$13,458,177 of outstanding loans payable to the Rhode Island Clean Water Finance Agency. The Town has capital leases outstanding at June 30, 2009 in the amount of \$2,550,928. The repayment of capital leases is incumbent upon the appropriation of current financial resources to make annual lease payments. The Town fully expects to appropriate future financial resources for annual lease payments.

Town of Middletown's Outstanding Debt General Obligation Bonds, Loans Payable, and Capital Leases

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$18,920,000	\$20,295,000			\$18,920,000	\$20,295,000
Loans payable	750,000	800,000	\$12,708,177	\$13,570,665	13,458,177	14,370,665
Capital leases	2,130,236	2,022,330	420,692	618,106	2,550,928	2,640,436
Total	\$21,800,236	\$23,117,330	\$13,128,869	\$14,188,771	\$34,929,105	\$37,306,101

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2008 was \$3,275,311,197, limiting the amount of non-excepted general obligation bonds outstanding to \$98,259,376. At June 30, 2009, bonds outstanding totaled \$18,920,000, or .58% of assessed property.

Economic Factors and Next Year's Budgets and Rates

The Town of Middletown enjoys a favorable economic environment and local indicators point to relative stability. As early as 1743, regional economic demand factors encouraged the agricultural sector to develop. Neighboring Newport provided a viable marketplace for the Town's agricultural commodities. Wealthy merchants from Newport also viewed the Town as a desirable place to live. Its prominence as a desirable residential community was second only to its function as a regional agricultural supplier.

Although changes in land use and economic activity occurred, for the most part the Town maintained its rural character well into the 20th Century. The most dramatic change occurred with the onset of World War II when the Navy purchased over 300 acres of waterfront property. This farmland was rapidly converted to Naval support facilities and housing. The infusion of Naval personnel, along with the associated development impacts, increased the regional population by nearly 900 percent from 1940 to 1970 and created a new economic sector within the Town and region. Historical economic linkages were changed by the addition of new consumer needs which were based upon the Navy's presence. The Town's present economy reflects diversity of activity, but with a significant sector devoted to service industries associated with defense-related activities. The Town also benefits from the important local tourism economy based on visitors to Newport and Aquidneck Island. The Town includes a large percentage of Aquidneck Island's lodging businesses, including hotels, inns and bed & breakfasts, as well as restaurants and other service and retail businesses.

Economic Factors and Next Year's Budgets and Rates (Continued)

The Town had a 2000 U.S. Census Bureau population of 17,334. The Town is located approximately 30 miles southeast of Providence. The Town is centrally located on Aquidneck Island between the City of Newport to the south and the Town of Portsmouth to the north. The Town is located in Newport County, which has an employed labor force of approximately 39,700 and an unemployment rate of approximately 10.2% (not seasonally adjusted) as of October 2009. The Town limits extend over an area of 14.7 square miles, including a land area of 12.9 square miles and an inland water area of 1.8 square miles.

Routes 138 and 114 are major highways connecting the Town to Interstate 195, Interstate 95, State Route 24 and the entire northeast corridor. Air transportation is available at the Newport State Air Park, located in Middletown, which provides charter air service to all major airports in New England and New York.

The State's major airport facility, T.F. Green State Airport, is located in the City of Warwick, approximately 30 miles from the Town, and offers scheduled service by several national and regional carriers. Boston's Logan International Airport is located approximately 70 miles to the north. Nationwide intercity rail passenger service is offered through AMTRAK with its stations in Providence and Kingston, RI. Regional commuter rail service to Boston and eastern Massachusetts is provided by the Massachusetts Bay Transportation Authority (MBTA). The MBTA currently provides service from Providence Station, but is expected to expand service to Warwick and Wickford, RI, as well as Fall River and New Bedford, MA. Middletown is also served with scheduled bus service by the Rhode Island Public Transit Authority (RIPTA) and its statewide system, as well as Peter Pan Bus Lines, which provides service to Providence, Boston and New York City. Freight transportation is provided by local and long distance trucking firms. Railroad freight service is available on the mainland. The nearby Port of Providence provides the Town with excellent shipping facilities.

The U.S. Navy remains the most significant public sector employer on Aquidneck Island and still contributes significant employment opportunities in the area. The 1995 and 2005 Base Realignment and Closure Commission's (BRAC) recommendations firmly established Naval Station Newport as the nation's leading naval educational center, with a net gain of 500 positions as a result of the 2005 BRAC. The Naval Education and Training Center (NETC) currently contains twelve formal schools, including the Naval War College and the Naval Justice School, and hosts a variety of other training and planning activities and groups. The 1995 BRAC also established the Naval Undersea Warfare Center (NUWC) as the Navy's main facility for development, testing and evaluation, engineering and fleet support center for submarines, autonomous underwater systems, undersea offensive and defensive weapon systems, and countermeasures associated with undersea warfare.

The Town continues to share in a large proportion of the retail business conducted on Aquidneck Island. Since developable land is available, the Town has become the commercial core of the Island. Presently, there are five large shopping centers and six other significant retail areas in the Town.

Economic Factors and Next Year's Budgets and Rates (Continued)

The services industries group, including businesses related to the local tourism industry, has been the fastest growing private employment sector in the private sector. There have been several new hotels and restaurants approved for development in recent years, and Middletown will now rival Newport for the number of available hotel rooms. Wholesale and retail trade was the second largest employer of private employment.

Because of the Town's proximity to Naval Station Newport, as well as its large supply of office space, it has become the center for many of the contract services companies supporting the Naval Undersea Warfare Center and other naval activities. Aquidneck Island has the highest concentration of defense-related companies in the state, including the Raytheon facility located in Portsmouth. Middletown is also host to other high tech and financial services companies. Overall, the light industry and office businesses that have come to the Town have had a positive effect on the economy of the Town and Aquidneck Island.

As a result of the current national economic climate, including limitations on lending, new commercial development in Middletown during 2009 was limited. However, interest in redevelopment and expansion of existing commercial properties continues. As the economy improves, it is anticipated that new office development will also continue. A new office building to house a local nonprofit organization was constructed during 2009 in the Aquidneck Corporate Park (the Park). Expansion and rehabilitation of existing buildings in the Park is also expected due to low vacancy rates and expected growth of defense contractors. A proposed redevelopment of an existing motel property, abutting the Park, into a resort and conference facility, including several hundred hotel rooms, is expected to proceed through the permitting process during the next year.

Residential development has also slowed; however, construction of a 60-unit condominium development for residents age 55 and over continues. The Town is currently considering a proposal for a 14-lot single-family subdivision. Over the past few months, building permit activity has begun to rebound.

Subsequent Events

The Town budgeted and set aside funds in fiscal years 2006, 2007, 2008 and 2009 totaling approximately \$2,500,000 (in a nonmajor special revenue fund) for the purpose of funding the Unfunded Actuarial Liability and Annual Required Contribution relating to its postemployment benefits program. Based upon the July 1, 2007 valuation, the Town has budgeted adequate funds in fiscal year 2009. The Town plans to establish and remit the accumulated funds to an Other Postemployment Benefits (OPEB) Trust. By doing so, the Town will be required and expects to implement GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in fiscal year 2010. Legislation passed by the Rhode Island General Assembly on June 26, 2008 will allow the Town to establish the Trust under Rhode Island State Statute.

Subsequent Events (Continued)

On August 28, 2008, the Rhode Island Department of Environmental Management and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called “citizen suit” provisions of the federal Clean Water Act. The complaint alleges that the Town’s sanitary sewer and stormwater discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizens’ groups seek injunctive relief requiring the Town to cease violations, remedy the effects of past violations, and pay appropriate civil penalties and reasonable attorney fees as authorized under the Clean Water Act. The Town believes that a reasonable out-of-court settlement could potentially be reached, but intends to vigorously contest the allegations in the complaint. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and stormwater discharges and issue the appropriate reports, which are expected to be completed in the spring of 2011. At that time, it will be determined what direction the Town will move in to address these issues. Additional information can be found in Note 11 on pages 62 and 63 of this report.

The market value of the Town’s pension investment account as of November 30, 2009 is \$36,793,453, which represents a 9.0% increase in the value since June 30, 2009. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Requests for Information

This financial report is designed to provide a general overview of the Town of Middletown’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 350 East Main Road, Middletown, RI 02842.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 16,923,843	\$ 2,206,426	\$ 19,130,269
Investments	2,277,344		2,277,344
Accounts receivable, less allowance for doubtful accounts of \$229,191:			
Property taxes	1,394,256		1,394,256
Federal and state government	2,004,429		2,004,429
Assessments and user fees		618,206	618,206
Loans	100,000		100,000
Other	308,371	45,183	353,554
Prepaid expenses	451,787	-	451,787
Internal balances	(553,362)	553,362	-
Noncurrent assessments and user fees		789,880	789,880
Deferred charges	128,415	200,912	329,327
Capital assets not being depreciated	17,917,342	6,938,954	24,856,296
Capital assets being depreciated, net	28,159,146	14,500,627	42,659,773
	<u>69,111,571</u>	<u>25,853,550</u>	<u>94,965,121</u>
Total assets			
LIABILITIES:			
Accounts payable and accrued expenses	3,438,014	970,758	4,408,772
Unearned revenue	4,000		4,000
Long-term obligations:			
Due within one year	2,061,551	1,069,716	3,131,267
Due in more than one year	25,347,406	10,692,031	36,039,437
	<u>30,850,971</u>	<u>12,732,505</u>	<u>43,583,476</u>
Total liabilities			
NET ASSETS:			
Invested in capital assets, net of related debt	24,432,116	9,677,834	34,109,950
Restricted for:			
Education	2,154,430		2,154,430
Perpetual care:			
Expendable	19,006		19,006
Nonexpendable	122,650		122,650
Other:			
Expendable	4,391,644		4,391,644
Nonexpendable	58,608		58,608
Unrestricted	7,082,146	3,443,211	10,525,357
	<u>\$ 38,260,600</u>	<u>\$ 13,121,045</u>	<u>\$ 51,381,645</u>
Total net assets			

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 7,215,075	\$ 452,807	\$ 8,793	\$ -	\$ (6,753,475)		\$ (6,753,475)
Public safety	11,551,825	2,076,394	125,127	14,664	(9,335,640)		(9,335,640)
Public works and sanitation	2,969,102	12,130	295,973		(2,660,999)		(2,660,999)
Planning and inspection	589,549	259,329	58,200		(272,020)		(272,020)
Library	836,568	11,287	210,503		(614,778)		(614,778)
Education	37,361,388	966,189	15,361,118	135,906	(20,898,175)		(20,898,175)
Community services	516,593		260,207	90,000	(166,386)		(166,386)
Interest on long-term debt	920,120				(920,120)		(920,120)
Total governmental activities	<u>61,960,220</u>	<u>3,778,136</u>	<u>16,319,921</u>	<u>240,570</u>	<u>(41,621,593)</u>		<u>(41,621,593)</u>
Business-type activities:							
Sewer	2,589,291	4,775,141		-		\$ 2,185,850	2,185,850
Parks and recreation	1,297,225	1,097,405	6,500			(193,320)	(193,320)
Refuse and recycle	1,138,305	583,827	160,250			(394,228)	(394,228)
Total business-type activities	<u>5,024,821</u>	<u>6,456,373</u>	<u>166,750</u>	<u>-</u>		<u>1,598,302</u>	<u>1,598,302</u>
Total	<u>\$ 66,985,041</u>	<u>\$ 10,234,509</u>	<u>\$ 16,486,671</u>	<u>\$ 240,570</u>	<u>(41,621,593)</u>	<u>1,598,302</u>	<u>(40,023,291)</u>
General revenues:							
Property taxes					38,581,791		38,581,791
Grants and contributions not restricted to specific programs					2,757,540		2,757,540
Investment earnings					248,856	43,238	292,094
Miscellaneous					218,574		218,574
Transfers					(578,209)	578,209	-
Total general revenues and transfers					<u>41,228,552</u>	<u>621,447</u>	<u>41,849,999</u>
Change in net assets					(393,041)	2,219,749	1,826,708
Net assets, beginning of year					<u>38,653,641</u>	<u>10,901,296</u>	<u>49,554,937</u>
Net assets, end of year					<u>\$ 38,260,600</u>	<u>\$ 13,121,045</u>	<u>\$ 51,381,645</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

ASSETS	<u>General Fund</u>	<u>School Department</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 8,801,909	\$ 3,162,500	\$ 339,465	\$ 4,619,969	\$ 16,923,843
Investments	2,177,714			99,630	2,277,344
Accounts receivable, less allowance for doubtful accounts of \$229,191:					
Property taxes	1,394,256				1,394,256
Federal and state government	415,068	1,538,685		50,676	2,004,429
Loans				100,000	100,000
Other	117,060	8,252	1,217	181,842	308,371
Prepaid expenses	451,787				451,787
Due from other funds	672,367	2,190		3,069,908	3,744,465
Total assets	<u>\$ 14,030,161</u>	<u>\$ 4,711,627</u>	<u>\$ 340,682</u>	<u>\$ 8,122,025</u>	<u>\$ 27,204,495</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 371,114	\$ 1,802,651	\$ 738,424	\$ 31,644	\$ 2,943,833
Accrued compensated absences	247,404	49,309			296,713
Due to other funds	3,964,481	11,854	204,575	116,917	4,297,827
Deferred revenue	505,665	693,383		59,329	1,258,377
Total liabilities	<u>5,088,664</u>	<u>2,557,197</u>	<u>942,999</u>	<u>207,890</u>	<u>8,796,750</u>
Fund balances:					
Reserved for:					
Encumbrances	737,067				737,067
Stormwater management	3,138,000				3,138,000
Long-term loans receivable				100,000	100,000
Perpetual care				122,650	122,650
Prepaid expenses and other	451,787			58,608	510,395
Unreserved, reported in:					
General Fund	4,614,643				4,614,643
Special revenue funds		2,154,430		7,606,486	9,760,916
Capital Projects Fund			(602,317)		(602,317)
Permanent funds				26,391	26,391
Total fund balances	<u>8,941,497</u>	<u>2,154,430</u>	<u>(602,317)</u>	<u>7,914,135</u>	<u>18,407,745</u>
Total liabilities and fund balances	<u>\$ 14,030,161</u>	<u>\$ 4,711,627</u>	<u>\$ 340,682</u>	<u>\$ 8,122,025</u>	<u>\$ 27,204,495</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total fund balances for governmental funds		\$	18,407,745
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	46,076,488	
Deferred charges		<u>128,415</u>	46,204,903
Some taxes and grants will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds.			1,254,377
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable	(18,892,551)		
Loans payable	(750,000)		
Capital leases	(2,130,236)		
Claims and judgments	(3,348,947)		
Compensated absences payable	(2,287,223)		
Accrued interest	<u>(197,468)</u>		<u>(27,606,425)</u>
Net assets of governmental activities		\$	<u><u>38,260,600</u></u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>School Department</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes	\$ 38,742,812				\$ 38,742,812
Intergovernmental	3,412,784	\$ 13,419,804		\$ 1,583,676	18,416,264
Licenses, permits and fees	1,103,293	784,404			1,887,697
Interest and investment income	159,095		\$ 41,498	48,263	248,856
State contribution to teachers' pension plan		1,731,447			1,731,447
Other revenues	310,732	181,785		596,415	1,088,932
Total revenues	<u>43,728,716</u>	<u>16,117,440</u>	<u>41,498</u>	<u>2,228,354</u>	<u>62,116,008</u>
Expenditures:					
Current:					
General government	3,055,926			3,875	3,059,801
Public safety	7,965,685			38,562	8,004,247
Public works and sanitation	1,668,383			20,426	1,688,809
Planning and inspection	435,727				435,727
Library	728,854			549	729,403
Education		37,960,394		3,900	37,964,294
Community services	118,924			367,829	486,753
Other expenditures	4,708,018				4,708,018
Grants	195,546				195,546
Capital outlay	1,749,860		8,911,829		10,661,689
Debt service:					
Debt issuance and fees	2,260				2,260
Principal	1,716,784				1,716,784
Interest	909,975				909,975
Total expenditures	<u>23,255,942</u>	<u>37,960,394</u>	<u>8,911,829</u>	<u>435,141</u>	<u>70,563,306</u>
Excess (deficiency) of revenues over expenditures	<u>20,472,774</u>	<u>(21,842,954)</u>	<u>(8,870,331)</u>	<u>1,793,213</u>	<u>(8,447,298)</u>
Other financing sources (uses):					
Capital lease proceeds	399,690				399,690
Transfers from other funds	2,294,862	22,431,230	1,233,893	1,832,558	27,792,543
Transfers to other funds	(23,759,381)	(400,050)		(4,211,321)	(28,370,752)
Total other financing sources (uses)	<u>(21,064,829)</u>	<u>22,031,180</u>	<u>1,233,893</u>	<u>(2,378,763)</u>	<u>(178,519)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(592,055)	188,226	(7,636,438)	(585,550)	(8,625,817)
Fund balance, beginning of year	<u>9,533,552</u>	<u>1,966,204</u>	<u>7,034,121</u>	<u>8,499,685</u>	<u>27,033,562</u>
Fund balance, end of year	<u>\$ 8,941,497</u>	<u>\$ 2,154,430</u>	<u>\$ (602,317)</u>	<u>\$ 7,914,135</u>	<u>\$ 18,407,745</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

Net change in fund balances for governmental funds		\$ (8,625,817)
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as depreciation expense.</p>		
Capital outlays, including amounts charged to current expenditures	\$ 11,711,830	
Depreciation expense	<u>(1,863,339)</u>	9,848,491
<p>Governmental funds report bond issuance costs as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as amortization expense.</p>		
		(12,237)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
		29,380
<p>The issuance of long-term debt (including premiums or discounts) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net assets. Bond premiums and refunding charges are deferred and amortized as part of future interest expense.</p>		
Principal repayment on long-term debt	1,716,784	
Issuance of capital lease	(399,690)	
Amortization of:		
Deferred charge on refunding	(21,760)	
Bond premiums	<u>6,441</u>	1,301,775
<p>Some expenditures not requiring the use of current financial resources in governmental funds are accrued in the statement of activities:</p>		
Claims and judgments	(3,112,039)	
Accrued compensated absences	<u>169,972</u>	(2,942,067)
<p>Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds</p>		
	<u>7,434</u>	<u>7,434</u>
Change in net assets of governmental activities		<u><u>\$ (393,041)</u></u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

JUNE 30, 2009

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 1,496,724	\$ 709,702		\$ 2,206,426
Accounts receivable:				
Assessments and user fees	338,801		\$ 279,405	618,206
Other		45,183		45,183
Due from other funds	994,573			994,573
Total current assets	2,830,098	754,885	279,405	3,864,388
Noncurrent assets:				
Assessments and user fees receivable, less current portion	789,880			789,880
Deferred charges, net	200,912			200,912
Capital assets not being depreciated	4,332,796	2,606,158		6,938,954
Capital assets being depreciated, net	12,874,812	1,077,787	548,028	14,500,627
Total assets	21,028,498	4,438,830	827,433	26,294,761
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	823,420	30,726	73,470	927,616
Due to other funds		220,025	221,186	441,211
Accrued compensated absences	34,900	7,742	500	43,142
Current portion of loans payable	863,803		205,913	1,069,716
Total current liabilities	1,722,123	258,493	501,069	2,481,685
Noncurrent liabilities, loans payable, net of current portion				
	10,477,252		214,779	10,692,031
Total liabilities	12,199,375	258,493	715,848	13,173,716
NET ASSETS:				
Invested in capital assets, net of related debt	5,866,553	3,683,945	127,336	9,677,834
Unrestricted	2,962,570	496,392	(15,751)	3,443,211
Total net assets	\$ 8,829,123	\$ 4,180,337	\$ 111,585	\$ 13,121,045

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
ENTERPRISE FUNDS

YEAR ENDED JUNE 30, 2009

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 4,741,199		\$ 577,243	\$ 5,318,442
Beach admittance and rental fees		\$ 894,886		894,886
Campground admittance and rental fees		157,374		157,374
Other revenues	33,942	45,145	6,584	85,671
	<u>4,775,141</u>	<u>1,097,405</u>	<u>583,827</u>	<u>6,456,373</u>
Total operating revenues				
Operating expenses:				
Salaries and benefits	546,563		44,871	591,434
Materials and supplies	16,083		1,657	17,740
Professional services	297,851		965,537	1,263,388
Repairs and maintenance	80,223		536	80,759
Utilities	141,399		1,987	143,386
Sewage disposal	867,466			867,466
Beaches		563,462		563,462
Lifeguards		205,739		205,739
Harbormaster		30,519		30,519
Security		30,979		30,979
Campground		29,046		29,046
Recreation		117,747		117,747
Parks and grounds		80,625		80,625
Civic appropriations		27,500		27,500
Miscellaneous	11,553	127,249		138,802
Depreciation	352,285	84,359	99,642	536,286
	<u>2,313,423</u>	<u>1,297,225</u>	<u>1,114,230</u>	<u>4,724,878</u>
Total operating expenses				
Operating income (loss)	<u>2,461,718</u>	<u>(199,820)</u>	<u>(530,403)</u>	<u>1,731,495</u>
Nonoperating revenues (expenses):				
Interest revenue	34,492	8,735	11	43,238
Grant revenue		6,500	160,250	166,750
Interest expense	(258,491)		(24,075)	(282,566)
Amortization of bond issuance costs	(17,377)			(17,377)
	<u>(241,376)</u>	<u>15,235</u>	<u>136,186</u>	<u>(89,955)</u>
Total nonoperating revenues (expenses)				
Income (loss) before transfers	2,220,342	(184,585)	(394,217)	1,641,540
Transfers from special revenue funds	72,407		505,802	578,209
Change in net assets	2,292,749	(184,585)	111,585	2,219,749
Net assets, beginning of year	6,536,374	4,364,922	-	10,901,296
Net assets, end of year	<u>\$ 8,829,123</u>	<u>\$ 4,180,337</u>	<u>\$ 111,585</u>	<u>\$ 13,121,045</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2009

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 4,759,532	\$ 1,072,905	\$ 449,868	\$ 6,282,305
Cash received from other sources	33,942	6,629	6,584	47,155
Cash paid to employees	(587,959)	(796,108)	(44,871)	(1,428,938)
Cash paid to suppliers	(1,478,024)	(385,527)	(982,737)	(2,846,288)
Cash paid to claimants				-
Cash paid to civic groups		(27,500)		(27,500)
Net cash provided by (used in) operating activities	<u>2,727,491</u>	<u>(129,601)</u>	<u>(571,156)</u>	<u>2,026,734</u>
Cash flows from noncapital financing activities:				
Interfund balances	-	34,279	632,011	666,290
Operating grants		6,500	160,250	166,750
Cash provided by noncapital financing activities	<u>-</u>	<u>40,779</u>	<u>792,261</u>	<u>833,040</u>
Cash flows from capital and related financing activities:				
Transfers from other funds	72,407	-		72,407
Capital contributions	62,064			62,064
Acquisition and construction of fixed assets	(1,435,610)	(204,363)		(1,639,973)
Interfund balances	(213,266)			(213,266)
Principal paid on bonds and notes	(862,488)		(197,414)	(1,059,902)
Interest paid on bonds and notes	(237,381)		(23,702)	(261,083)
Net cash used in capital and related financing activities	<u>(2,614,274)</u>	<u>(204,363)</u>	<u>(221,116)</u>	<u>(3,039,753)</u>
Cash provided by investing activities, interest received	<u>34,492</u>	<u>8,737</u>	<u>11</u>	<u>43,240</u>
Net increase (decrease) in cash and cash equivalents	147,709	(284,448)	-	(136,739)
Cash and cash equivalents, beginning of year	<u>1,349,015</u>	<u>994,150</u>	<u>-</u>	<u>2,343,165</u>
Cash and cash equivalents, end of year	<u>\$ 1,496,724</u>	<u>\$ 709,702</u>	<u>\$ -</u>	<u>\$ 2,206,426</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Recycle and Refuse Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,461,718	\$ (199,820)	\$ (530,403)	\$ 1,731,495
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	352,285	84,359	99,642	536,286
Changes in assets and liabilities:				
Increase in:				
Accounts receivable, other		(17,869)	(127,375)	(145,244)
Accounts payable and accrued expenses		3,729		3,729
Accrued compensated absences	2,297			2,297
Decrease in:				
Accounts receivable, other	18,333			18,333
Accounts payable and accrued expenses	(107,142)		(13,020)	(120,162)
Net cash provided by (used in) operating activities	<u>\$ 2,727,491</u>	<u>\$ (129,601)</u>	<u>\$ (571,156)</u>	<u>\$ 2,026,734</u>
Supplemental disclosures, noncash capital and related financing activities:				
Acquisition and construction of fixed assets paid from loan proceeds held by State of Rhode Island				<u>\$ 2,713,100</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

JUNE 30, 2009

	Pension Trust Fund	Scholarship Private Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and cash equivalents		\$ 39,529	\$ 238,987
Investments	\$ 33,753,313		120,494
	<u>33,753,313</u>	<u>39,529</u>	<u>\$ 359,481</u>
Total assets			
LIABILITIES:			
Deposits held in custody for others			<u>\$ 359,481</u>
NET ASSETS:			
Held in trust for pension benefits and other purposes	<u>\$ 33,753,313</u>	<u>\$ 39,529</u>	

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2009

	Pension Trust Fund	Clarke Scholarship Private Purpose Trust Fund
	<u> </u>	<u> </u>
Additions to net assets:		
Contributions:		
Employer	\$ 2,575,587	
Plan members	<u>216,252</u>	
	2,791,839	
Investment income, net, interest income	<u>1,056,635</u>	<u>\$ 393</u>
Total additions	<u>3,848,474</u>	<u>393</u>
Deductions from net assets:		
Net decrease in fair value of investments	6,135,878	
Benefits	3,214,024	
Administrative expense	201,877	
Scholarships		<u>8,500</u>
Total deductions	<u>9,551,779</u>	<u>8,500</u>
Change in net assets	(5,703,305)	(8,107)
Net assets, beginning of year	<u>39,456,618</u>	<u>47,636</u>
Net assets, end of year	<u>\$ 33,753,313</u>	<u>\$ 39,529</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies:

The financial statements of the Town of Middletown, Rhode Island (the Town) have been prepared in conformity with accounting principles generally accepted in the United States applicable to governmental entities. In certain instances, summaries of the Town's significant accounting policies have been presented throughout the notes to the financial statements in conjunction with other disclosures to which they relate.

Financial reporting entity:

The Town was established in 1639 and incorporated in 1743. It is governed under a home rule charter adopted in 1968, which provides for a Town Council/Town Administrator form of government. Legislative authority is vested in a seven-member Town Council elected to biennial terms. A five-member School Committee is vested with autonomous legislative authority over the Town's public school system. Members of the School Committee are elected to four-year terms.

The council-appointed Town Administrator serves as chief administrative agent over all municipal services including public safety (police, fire and traffic safety), public works (highway, harbors, maintenance, sanitation), social services, parks and recreation, planning, zoning and inspection, and general administrative services. The Superintendent of Schools, appointed by the School Committee, serves as the chief administrative agent for the School Department, which provides elementary and secondary education to Town residents.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Town applied the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Town has identified no component units through the application of GASB Statement No. 14 criteria.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Basis of presentation:

Government-wide financial statements:

The statement of net assets and statement of activities display information about the Town as a whole. They include all funds of the Town except for fiduciary funds and distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between expenses and program revenue for each function of the Town's governmental activities. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements:

Fund financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- (a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- (b) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Fund types used by the Town and a description of the funds comprising each are as follows:

Governmental funds:

Governmental funds are used to account for operations that supply basic government services. The Town uses the following governmental funds:

General Fund:

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special revenue funds:

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. The Town's major special revenue fund is the School Department, which provides primary education to the Town's children.

Capital projects funds:

Capital projects funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The Town's Capital Project Fund is a major fund.

Permanent funds:

Permanent funds account for assets held by the Town where the principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Town's permanent funds are all nonmajor funds.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Proprietary funds:

Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Of the Town's three enterprise funds, Sewer Fund, and Parks and Recreation Fund are major funds. The Town has no internal service funds.

Fiduciary funds:

Fiduciary funds are used to report assets held by the Town in a trustee or agency capacity and, therefore, cannot be used to support the Town's own programs. The following fiduciary funds are used by the Town:

Pension trusts:

Pension trust funds account for contributions made by the Town and its participating employees to provide retirement and other postemployment benefits to the participating employees.

Private purpose trust:

The Town's private purpose trust accounts for resources legally held in trust for use by an outside committee to provide awards and scholarships in accordance with a donor's instructions. All resources of the fund, including any earnings on investments, may be used. There is no requirement that any portion of these resources be preserved as capital.

Agency:

Agency funds are established when the Town holds assets in custody for others in an agency capacity.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual. Susceptibility occurs when revenues are both measurable and available for liquidating liabilities of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (sixty days). Revenues not considered to be available are recorded as deferred revenues. Expenditures, including capital outlays, are recognized when a liability has been incurred, except for those involving debt service and other long-term obligations that are recognized when paid.

Those revenues susceptible to accrual are property taxes, special assessments, federal impact aid, state aid, meals and hotel taxes collected by the State of Rhode Island (the State) on behalf of the Town, interest and charges for services. Fines, licenses and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash and thus are recognized when received.

Recognition of grant revenues is based on the susceptibility of accrual as determined by the legal and contractual requirements established by each grantor. For grants not restrictive as to specific purposes and revocable only for failure to comply with general prescribed requirements, revenues are recognized when actually received. Where expenditure is the prime factor in determining eligibility, grant revenue is recognized as allowable expenditures are made provided they are collected during the year or within 60 days subsequent to year-end. Prior to expenditure, proceeds are recorded as deferred revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund, the Parks and Recreation Fund and the Refuse and Recycle Fund are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Property taxes:

Property taxes are recognized as revenue in the year they are levied and become available. Taxes are levied in August on (a) one hundred percent of the full and fair value of real and tangible personal property owned within the Town the previous December 31; and, (b) the value, as determined by the Rhode Island Vehicle Valuation Commission, of vehicles registered within the Town the previous calendar year, prorated for the actual number of days so registered. Taxes levied in August are payable quarterly on September 10, December 10, March 10 and June 10. Failure to make payments by March 10 will result in a lien on the taxpayer's property.

Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 5.0% over that of the preceding fiscal year for 2009. The rate decreases annually by .25% to 4% in 2013.

Use of estimates:

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, time and demand deposits and short-term investments maturing within three months from the date of acquisition.

Under Rhode Island general laws, depository institutions must insure deposits of municipalities or pledge eligible collateral equal to 100% of deposits maturing in greater than 60 days. Any institution not meeting certain federally prescribed minimum capital standards must insure deposits or provide collateral regardless of date of maturity. The Town complied with these requirements. The Town does not have a deposit policy for custodial credit risk or other risks.

Investments:

Investments are reported at fair value. Fair values are established by quotations from applicable national securities exchanges. Unrealized gains and losses from changes in fair value are recognized as investment income. The State does not have pertinent laws regarding investments that apply to cities and towns. The Town does not have an investment policy for custodial credit risk or other risks other than those relating to its pension trust fund and burial fund (Managed Funds). The Town's Pension Trust Fund Investment Advisory Committee is responsible for the supervision of the investment of the Town's Managed Funds investments with the objective of preserving capital and investing with care to minimize the risk of large losses.

Interfund transactions:

Transactions between funds have been eliminated in the government-wide financial statements but fully presented within the governmental fund financial statements with no elimination made between or within funds. Reimbursements are accounted for as expenditures in the reimbursing fund and reductions to expenditures in the reimbursed fund. All other interfund transactions in the governmental fund financial statements are operating transfers on the operating statements of the funds involved.

Interfund receivables and payables are classified as "due from other funds" or "due to other funds."

Capital assets:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Capital assets (continued):

Capitalizable fixed assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Land improvements	15-20
Buildings and improvements	20-40
Furniture and equipment	3-10
Motor vehicles	4-15
Library books	5
Infrastructure	20-50

Capital assets acquired by governmental funds are accounted for as capital outlay expenditures.

Bond issuance costs:

Bond issuance costs for government-wide operations and enterprise funds are deferred and amortized over the term of the bonds using the straight-line method. In governmental funds, bond issuance costs are recognized in the current period.

Compensated absences:

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. Summary of significant accounting policies (continued):

Compensated absences (continued):

In the governmental fund financial statements, vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

Long-term obligations:

In the government-wide financial statements, long-term debt and long-term compensated absences are reported as liabilities in the statement of net assets. Bond issuance costs are deferred and amortized over the term of the related debt.

In the governmental fund financial statements, long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Bond issuance costs are expensed as incurred.

Fund equity:

Government-wide financial statements:

Net assets:

The Town's net assets have been segregated into the following three components in accordance with GASB Statement No. 34:

Invested in capital assets, net of related debt - represents the net book value of all capital assets less the outstanding balances of bonds and other debt used to acquire, construct or improve these assets.

Restricted - those that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law.

Unrestricted - a residual category for the balance of net assets.

Fund financial statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Fund balances:

As of June 30, 2009, unreserved fund balance designations are as follows:

	<u>School Department</u>
To balance fiscal 2010 budget	\$ 300,000
Total	<u>\$ 300,000</u>

The Capital Projects Fund, a major special revenue fund, had a negative fund balance of (\$602,317) at June 30, 2009 due to ongoing construction projects. Recovery of the deficit is expected to come from the issuance of general obligation bonds and through the receipt of grant revenue.

3. Deposits and investments:

Cash and cash equivalents (deposits):

At June 30, 2009, the carrying amount of the Town's deposits, including \$11,521,020 of cash equivalents, was \$19,408,785 and the bank balance was \$20,848,190, of which \$18,620,479 was uninsured and collateralized with securities held by the pledging financial institution, but not in the Town's name.

At June 30, 2009, deposits are categorized as follows:

	<u>Insured/ collateralized in Town's name</u>	<u>Rating</u>	<u>Maturities</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Deposits:					
Demand deposits	\$ 2,227,711			\$ 5,188,394	\$ 3,747,485
Repurchase agreements		N/A	7/1/09	4,140,280	4,140,280
Money market				<u>11,519,516</u>	<u>11,521,020</u>
	<u>\$ 2,227,711</u>			<u>\$20,848,190</u>	<u>\$19,408,785</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. Deposits and investments (continued):

Investments:

Investments other than Pension Trust Fund:

	<u>Carrying amount</u>	<u>Maturities</u>	<u>Rating</u>
Certificates of deposit	\$ 2,177,714	7/2/09 to 4/13/10	Not rated
Certificates of deposit	120,494	12/30/09	Not rated
Mutual funds, U.S.			
Government securities	<u>99,630</u>	Not applicable	Not rated
Total investments	<u>\$ 2,397,838</u>		

Pension Trust Fund investments:

	<u>Carrying amount</u>
Mutual funds	\$ 20,195,587
Group annuity	<u>13,557,726</u>
Total investments	<u>\$ 33,753,313</u>

The market value of the Town's pension investment account as of November 30, 2009 is \$36,793,453, which represents a 9.0% increase in the value since June 30, 2009. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Interest rate risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market value interest rates.

Although there is no established policy, the Town manages its exposure to declines in fair values by limiting the term of liquid investments to less than 90 days. It does not hold long-term investments other than those managed by the Pension Trust Investment Advisory Committee (Committee).

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. Deposits and investments (continued):

Interest rate risk (continued):

Managed investments are subject to interest rate risk. The risk associated with the Managed Funds is mitigated by continuous evaluation of the portfolio's performance by the Finance Director and the Committee. The Committee receives monthly investment performance reports from its investment advisors and meets quarterly to review the reports to determine if market conditions reflect the investment performance policies of the Town.

Credit risk:

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization to debt securities. The Town does not hold debt investments. Managed Funds are invested in equities and a group annuity, neither of which are debt instruments. The group annuity is held by an insurance company rated by Moody's as Aa3.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. Managed Funds reflect a balanced array of investment products with planned diversity consistent with the need for short-term liquidity, as well as long-term deferred obligations.

As of June 30, 2009, the following pension investments represent 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795 GAC	\$ 13,557,726
Citizens Select Prime Money Market Fund #463	2,821,625
T. Rowe Price Equity Income Fund #71	2,705,818
Janus Intech Risk Managed Core CL I #118	2,106,122
T. Rowe Price Blue Chip Growth	1,870,694
Dodge & Cox International Stock Fund #1048	1,692,703

Custodial credit risk:

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. Interfund transactions:

Interfund receivables and payables at June 30, 2009 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	School Department	\$ 11,854
	Nonmajor funds	114,727
	Parks and Recreation	120,025
	Refuse and Recycle	221,186
	Capital Projects Fund	<u>204,575</u>
		<u>672,367</u>
School Department	Governmental funds:	
	Nonmajor funds	<u>2,190</u>
Nonmajor governmental funds	Governmental funds,	
	General Fund	2,969,908
	Enterprise funds,	
	Parks and Recreation	<u>100,000</u>
		<u>3,069,908</u>
Enterprise funds, Sewer Fund	Governmental funds,	
	General Fund	<u>994,573</u>
		<u>\$ 4,739,038</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2009 were as follows:

<u>Transfer to Fund</u>	<u>Transfer from Fund</u>	<u>Amount</u>
Governmental funds: General Fund	Governmental funds, nonmajor funds	<u>\$ 2,294,862</u>
Capital Projects Fund	Governmental funds, nonmajor funds	<u>1,233,893</u>
School Department	Governmental Funds: General Fund Nonmajor funds	21,970,071 <u>461,159</u>
		<u>22,431,230</u>
Nonmajor governmental funds	Governmental funds: General Fund School Department Nonmajor funds	1,427,508 400,050 <u>5,000</u>
		<u>1,832,558</u>
Enterprise funds: Sewer	Governmental funds, nonmajor funds	<u>72,407</u>
Refuse and Recycle	Governmental funds, General Fund Nonmajor funds	361,802 <u>144,000</u>
		<u>505,802</u>
		<u><u>\$ 28,370,752</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. Capital assets:

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,653,615	\$ 1,638,166		\$ 7,291,781
Construction in progress:				
Infrastructure	2,703,059	7,055,222	\$ (325,855)	9,432,426
Other	<u>18,526</u>	<u>1,193,135</u>	<u>(18,526)</u>	<u>1,193,135</u>
Total capital assets not being depreciated	<u>8,375,200</u>	<u>9,886,523</u>	<u>(344,381)</u>	<u>17,917,342</u>
Capital assets being depreciated:				
Infrastructure	26,736,163	342,707		27,078,870
Land improvements	1,700,579	730,515		2,431,094
Buildings and improvements	19,558,973	355,653	(254,257)	19,660,369
Furniture and equipment	2,459,505	501,541	(14,911)	2,946,135
Library books	1,432,686			1,432,686
Motor vehicles	<u>3,887,627</u>	<u>245,026</u>	<u>(38,190)</u>	<u>4,094,463</u>
Total capital assets being depreciated	<u>55,775,533</u>	<u>2,175,442</u>	<u>(307,358)</u>	<u>57,643,617</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Governmental activities (continued):				
Capital assets being depreciated (continued):				
Less accumulated depreciation for:				
Infrastructure	\$ (12,440,159)	\$ (669,616)		\$ (13,109,775)
Land improvements	(507,976)	(77,124)		(585,100)
Buildings and improvements	(9,307,074)	(559,943)	\$ 254,257	(9,612,760)
Furniture and equipment	(1,754,296)	(222,629)	14,911	(1,962,014)
Library books	(1,342,029)	(33,639)		(1,375,668)
Motor vehicles	(2,571,202)	(300,388)	32,436	(2,839,154)
Total accumulated depreciation	<u>(27,922,736)</u>	<u>(1,863,339)</u>	<u>301,604</u>	<u>(29,484,471)</u>
Total capital assets being depreciated, net	<u>27,852,797</u>	<u>312,103</u>	<u>(5,754)</u>	<u>(28,159,146)</u>
Governmental activities capital assets, net	<u>\$ 36,227,997</u>	<u>\$ 10,198,626</u>	<u>\$ (350,135)</u>	<u>\$ 46,076,488</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,751,380	\$ 27,666		\$ 2,779,046
Construction in progress	2,562,138	2,021,817	\$ (424,048)	4,159,907
Total capital assets not being depreciated	<u>5,313,518</u>	<u>2,049,483</u>	<u>(424,048)</u>	<u>6,938,953</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Business-type activities (continued):				
Capital assets being depreciated:				
Land improvements	\$ 932,293	\$ 96,650		\$ 1,028,943
Buildings and improvements	176,629	119,419	\$ (4,069)	291,979
Equipment	2,159,109	620,435		2,779,544
Sewer lines and pumps	11,848,825	1,468,898		13,317,723
Vehicles	143,813	7,919		151,732
Total capital assets being depreciated	<u>15,260,669</u>	<u>2,313,321</u>	<u>(4,069)</u>	<u>17,569,921</u>
Less accumulated depreciation for:				
Land improvements	(320,653)	(46,119)		(366,772)
Buildings and improvements	(80,753)	(9,938)	4,069	(86,622)
Equipment	(1,119,397)	(215,346)		(1,334,743)
Sewer lines and pumps	(988,021)	(253,566)		(1,241,587)
Vehicles	(28,252)	(11,317)		(39,569)
Total accumulated depreciation	<u>(2,537,076)</u>	<u>(536,286)</u>	<u>4,069</u>	<u>(3,069,293)</u>
Total capital assets being depreciated, net	<u>12,723,593</u>	<u>1,777,035</u>		<u>14,500,628</u>
Business-type activities capital assets, net	<u>\$ 18,037,111</u>	<u>\$ 3,826,518</u>	<u>\$ 424,048</u>	<u>\$ 21,439,581</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. Capital assets (continued):

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 101,882
Public safety	303,550
Public works and sanitation	845,013
Planning and inspection	4,113
Library	56,926
Education	536,046
Community services	<u>15,809</u>
	<u>\$ 1,863,339</u>

Business-type activities:

Sewer Fund	\$ 352,285
Parks and Recreation Fund	84,359
Refuse and Recycle Fund	<u>99,642</u>
	<u>\$ 536,286</u>

6. Long-term debt:

General obligation bonds and loan payable:

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. In addition, general obligation bonds have been issued to refund previously outstanding general obligation bonds.

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2008 was \$3,275,311,197, limiting the amount of non-excepted general obligation bonds outstanding to \$98,259,336. At June 30, 2009, bonds outstanding totaled \$18,920,000.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

General obligation bonds and loan payable (continued):

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds and loan payable outstanding at June 30, 2009 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2008	New issues	Retired	Balance, June 30, 2009
General obligation bonds:								
Town refunding	\$ 2,960,000	4/19/94	3.2-5.75%	7/15/10	\$ 150,000	\$ - 0 -	\$ 50,000	\$ 100,000
Road, drainage, library construction and improvements, open space, Police and Town Hall repairs	5,100,000	11/1/01	3.2-5.5%	7/15/21	3,500,000		250,000	3,250,000
School refunding	2,395,000	10/29/02	3.0-4%	11/15/13	1,250,000		220,000	1,030,000
School improvements	4,390,000	10/29/02	3.0-5%	3/15/22	3,220,000		230,000	2,990,000
Road, drainage, open space	6,500,000	4/1/07	3.5-5%	6/15/27	6,175,000		325,000	5,850,000
Police station	<u>6,000,000</u>	4/1/08	3.0-4.05%	4/1/22	<u>6,000,000</u>		<u>300,000</u>	<u>5,700,000</u>
Total general obligation bonds	27,345,000				20,295,000		1,375,000	18,920,000
Loan payable:								
Rhode Island Clean Water Finance Agency, Open Space	<u>1,000,000</u>	11/13/03	1.17%	9/1/23	<u>800,000</u>		<u>50,000</u>	<u>750,000</u>
Total	<u>\$ 28,345,000</u>				<u>\$ 21,095,000</u>	<u>\$ - 0 -</u>	<u>\$ 1,425,000</u>	<u>\$ 19,670,000</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

General obligation bonds and loan payable (continued):

At June 30, 2009, annual debt service requirements to maturity for general obligation bonds and loan payable are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,420,000	\$ 760,569	\$ 2,180,569
2011	1,415,000	710,359	2,125,359
2012	1,360,000	659,339	2,019,339
2013	1,355,000	609,058	1,964,058
2014	1,355,000	558,753	1,913,753
2015-2019	5,775,000	2,089,896	7,864,896
2020-2024	4,815,000	933,752	5,748,752
2025-2028	2,175,000	198,600	2,373,600
	<u>\$ 19,670,000</u>	<u>\$ 6,520,326</u>	<u>\$ 26,190,326</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

Loans payable:

Loans payable are as follows:

<u>Purpose</u>	<u>Authorized and issued</u>	<u>Date of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>Balance, July 1, 2008</u>	<u>New issues</u>	<u>Maturities</u>	<u>Balance, June 30, 2009</u>
Enterprise Fund, Sewer:								
Rhode Island Clean Water Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 735,370	\$ - 0 -	\$ 105,051	\$ 630,319
Rhode Island Clean Water Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	757,013		44,437	712,576
Rhode Island Clean Water Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	2,125,000		125,000	2,000,000
Rhode Island Clean Water Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	5,700,000		300,000	5,400,000
Rhode Island Clean Water Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,750,000		138,000	2,612,000
Rhode Island Clean Water Finance Agency	<u>1,503,282</u>	12/13/07	1.91%	9/1/27	<u>1,503,282</u>		<u>150,000</u>	<u>1,353,282</u>
	<u>\$ 15,749,282</u>				13,570,665	<u>\$ - 0 -</u>	<u>\$ 862,488</u>	12,708,177
Less undrawn loan proceeds held by the State					<u>(4,080,222)</u>			<u>(1,367,122)</u>
					9,490,443			11,341,055
Less current portion					<u>(862,489)</u>			<u>(863,803)</u>
					<u>\$ 8,627,954</u>			<u>\$ 10,477,252</u>

At June 30, 2009, the Sewer Fund has \$1,367,122 due from the State for undrawn loan proceeds available for sewer construction projects.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

Loans payable (continued):

At June 30, 2009, scheduled annual debt service requirements for the loans payable (excluding interest adjustments for the undrawn balance) are as follows:

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2010	\$ 863,803	\$ 237,509	\$ 1,101,312
2011	865,156	220,920	1,086,076
2012	866,548	204,081	1,070,629
2013	867,981	186,987	1,054,968
2014	869,457	169,665	1,039,122
2015-2019	3,804,075	611,824	4,415,899
2020-2024	3,004,157	295,944	3,300,101
2025-2028	1,567,000	48,923	1,615,923
	<u>\$ 12,708,177</u>	<u>\$ 1,975,853</u>	<u>\$ 14,684,030</u>

Capital lease obligations:

The Town has financed the acquisition of certain equipment through lease-purchase agreements. Equipment financed under capital leases has been acquired for the General Fund and the School Department (recorded in the governmental activities capital assets being depreciated) and for the Refuse and Recycle Fund (recorded in the business-type activities capital assets being depreciated). Governmental activities fixed assets under capital lease of \$3,036,208 are recorded net of \$685,501 of accumulated depreciation. Interest expense for the year ended June 30, 2009 of \$95,917 is reported within the governmental activities, interest on long-term debt on the statement of activities.

Business-type activities fixed assets under capital lease of \$710,457 are recorded net of accumulated depreciation of \$149,462. Interest expense for the year ended June 30, 2009 of \$24,075 was recorded in the Refuse and Recycle Fund.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

Capital lease obligations (continued):

Capital lease obligations currently outstanding are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2008	New issues	Maturities	Balance, June 30, 2009
Capital leases:								
Governmental activities:								
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,800,981		\$ 134,852	\$ 1,666,129
Vehicles	360,518	12/1/05	4.21%	7/1/10	221,349		70,762	150,587
Vehicles under contract	<u>399,690</u>	11/10/08	2.16%	8/1/12	<u>- 0 -</u>	\$ 399,690	<u>86,170</u>	<u>313,520</u>
Total	<u>\$ 3,036,208</u>				<u>\$ 2,022,330</u>	<u>\$ 399,690</u>	<u>\$ 291,784</u>	<u>\$ 2,130,236</u>
Business-type activities:								
Enterprise Fund, Refuse and Recycle	<u>\$ 710,457</u>	11/6/07	4.26%	6/15/11	<u>\$ 618,106</u>	<u>\$ - 0 -</u>	<u>\$ 197,414</u>	<u>\$ 420,692</u>

At June 30, 2009, annual debt service requirements to maturity for capital lease obligations are as follows:

Capital leases:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2010	\$ 291,473	\$ 96,228	387,701
2011	301,132	86,569	387,701
2012	234,985	72,635	307,620
2013	246,196	61,424	307,620
2014	171,773	49,677	221,450
2015-2019	<u>884,677</u>	<u>111,843</u>	<u>996,520</u>
	<u>\$ 2,130,236</u>	<u>\$ 478,376</u>	<u>\$ 2,608,612</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

Capital leases (continued):

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2010	\$ 205,913	\$ 15,752	\$ 221,665
2011	214,779	6,886	221,665
	<u>\$ 420,692</u>	<u>\$ 22,638</u>	<u>\$ 443,330</u>

Changes in the long-term obligations of governmental activities during the year ended June 30, 2009 were as follows:

	Balance, July 1, 2008	Additions	Retirements	Balance, June 30, 2009	Due within one year
Bonds payable:					
General obligation bonds	\$ 20,295,000		\$ 1,375,000	\$ 18,920,000	\$ 1,370,000
Deferred amounts:					
For issuance premiums	72,365		6,441	65,924	6,671
On refunding	(115,133)		(21,760)	(93,373)	20,733
Total bonds payable	20,252,232		1,359,681	18,892,551	1,397,404
Loans payable	800,000		50,000	750,000	50,000
Capital leases	2,022,330	\$ 399,690	291,784	2,130,236	291,473
Claims and judgments	236,908	3,138,000 (1)	25,961	3,348,947	25,961
Accrued compensated absences	2,457,195		169,972	2,287,223	296,713
Total long-term obligations	<u>\$ 25,768,665</u>	<u>\$ 3,537,690</u>	<u>\$ 1,897,398</u>	<u>\$ 27,408,957</u>	<u>\$ 2,061,551</u>

Compensated absences and legal settlements typically have been liquidated in the General and School Department governmental funds.

(1) As discussed in Note 11, the Town has been named in a "citizen suit" for its alleged violation of the Clean Water Act. As a result, management has recorded the estimated probable remediation costs of \$3,138,000.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

6. Long-term debt (continued):

Changes in the long-term obligations of business-type activities during the year ended June 30, 2009 were as follows:

	<u>Balance, July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2009</u>	<u>Due within one year</u>
Loans payable	\$ 13,570,665		\$ 862,488	\$ 12,708,177	
Less undrawn loan proceeds held by the State	<u>(4,080,222)</u>	\$ 2,713,100		<u>(1,367,122)</u>	
	9,490,443			11,341,055	\$ 863,803
Capital leases	<u>618,106</u>		197,414	<u>420,692</u>	<u>205,913</u>
Total long-term obligations	<u>\$ 10,108,549</u>			<u>\$ 11,761,747</u>	<u>\$ 1,069,716</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

7. Accounts payable and accrued expenses:

	Vendors	Other Governments	Employees	Accrued interest	Total
Governmental activities:					
General Fund	\$ 355,536	\$ 15,578	\$ 247,404		\$ 618,518
School Department	1,301,508	501,143	49,309		1,851,960
Capital Projects Fund	738,424				738,424
Nonmajor funds	31,644				31,644
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 197,468	197,468
	<u>\$ 2,427,112</u>	<u>\$ 516,721</u>	<u>\$ 296,713</u>	<u>\$ 197,468</u>	<u>\$ 3,438,014</u>
Business-type activities:					
Sewer Fund	\$ 454,542	\$ 287,069	\$ 34,900	\$ 81,809	\$ 858,320
Parks and Recreation Fund	30,726		7,742		38,468
Refuse and Recycle Fund	73,097		500	373	73,970
	<u>\$ 558,365</u>	<u>\$ 287,069</u>	<u>\$ 43,142</u>	<u>\$ 82,182</u>	<u>\$ 970,758</u>

8. Pension plans:

All eligible employees of the Town are covered by one of three pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), or the Town of Middletown Retirement Plan (Town Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all Town Hall employees, all new Public Works employees hired on or after July 1, 1999, all new Police Department employees sworn in on or after January 1, 2000, all new Fire Department employees hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Plan covers all other eligible employees. Total covered payroll under all plans during 2009 was \$27,681,267. Total Town payroll was \$30,216,141 for the same period.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Teachers' Plan

Plan description:

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. Total covered payroll under the plan during 2009 was \$17,533,523, including \$508,477 of federally reimbursed payroll.

Participants' rights to pension benefits become fully vested after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 60, or after 28 years of service regardless of age. Benefits are equal to 1.7% of final average salary for each of the first 10 years of service, 1.9% for each of the next ten years, 3% for each of the next 14 years thereafter, and 2% for the 35th year, resulting in a maximum benefit of 80% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings. Retirees' benefits are subject to a 3% compounded annual cost of living increase, commencing on the January 1st following the third anniversary of an employee's retirement.

The plan also provides pre-retirement benefits under the Retirement Formula for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

Funding policy:

Rhode Island general laws set the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The Town participates in the optional Teachers Survivor Benefits Fund whereby the employer and the employee each contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits.

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2009, the Town's actuarial required contributions were 11.886% of participant salary (20.07% for federally reimbursed salary). This resulted in a contribution rate paid by the State on behalf of Town teachers of 10.17% (\$1,731,447). The Town's required and actual contributions to the Teacher's Plan for fiscal years 2009, 2008 and 2007 were \$2,023,597, \$2,326,471, and \$2,095,057, respectively.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Municipal Plan

Plan description:

The Municipal Plan is an agent multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. For fiscal year 2009, payroll for employees covered under the plan totaled \$6,750,022.

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after 10 years of service if they have attained age 58 (age 55 for police and fire) or after 30 years of service (20 years for police and fire) regardless of age. Benefits are equal to 2% of final average salary for each year of service for municipal employees, and 2.5% of final average salary for each year of service for fire and police, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3%, not compounded, to allow for cost of living increases under an optional benefit provision adopted by the Town.

The plan also provides pre-retirement benefits under the Retirement Formula for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

As of June 30, 2009, 164 active employees (35 police and firefighters) were members of the Municipal Plan.

Funding policy:

Rhode Island general laws set contributions of participating employees at 6% (8% for police) of salary. An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of July 1, 1988 over a closed period of 25 years (or over 25 from date joined if after July 1, 1988). Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Municipal Plan (continued)

Annual pension costs and net pension obligations:

The following table summarizes annual pension costs and actual contributions for the plan for the past three years. There was no net pension obligation during the three-year period.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual pension costs	\$ 1,304,627	\$ 1,103,577	\$ 953,855
Actual contributions:			
Employee	502,801	463,120	410,574
Employer	801,826	640,457	543,281
Percent of annual pension costs contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Funded status and funding progress:

As of June 30, 2007, the date of the most recent actuarial valuation available, the Municipal Plan was 74.0% and 108.7% funded for general employee unit, and police and fire unit, respectively. The actuarial accrued liability for benefits was \$13,842,877 and \$536,554 for general employee unit, and police and fire unit, respectively, and the actuarial value of assets was \$10,238,856 and \$583,149, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$3,604,020 and (\$46,595) for general employee unit, and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$4,674,046 and \$1,113,023 for general employee unit, and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 77.1% and (4.2%), respectively.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial values of Municipal Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

Actuarial methods and significant assumptions:

The State uses the entry age normal actuarial cost method to determine both the actuarial accrued liabilities and annual required contributions to each member of the plan. Pension assets are valued at their fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets, and annual required contributions for the Municipal Plan are performed annually as of June 30.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Municipal Plan (continued)

Actuarial methods and significant assumptions (continued):

Significant actuarial assumptions used in the June 30, 2007 valuation are summarized as follows:

Asset appreciation:	8.25% annually
Salary increases:	4.25% annually
Cost of living adjustments:	4.25%, not compounded

Retirement probability:

100% at age 70 or upon eligibility (100% at age 60 or upon eligibility - police)

Mortality:

Healthy members - 1994 Group Annuity Mortality Tables

Disabled members - PBGC Table set to age 65 (55 for police and fire employees)

Disability:

Probabilities per 1,000 ranging from .09% at age 25 to 9.87% at age 60 (.43% at age 25 to 3.03% at age 50 for police and fire)

Town Plan

Plan description:

The Town Plan is a single employer defined benefit pension plan established by the Town in accordance with the Town Charter. The Town Plan was administered by the John Hancock Mutual Life Insurance Company through a Group Annuity Contract (GAC). Effective July 1, 1999, the Town established a pension trust fund with Citizens Bank as trustee and the GAC was transferred to the trust. For fiscal year 2009, payroll for employees covered under the plan totaled \$3,397,722.

As of July 1, 2008, the date of the latest actuarial valuation, employee membership data related to the pension plan is as follows:

Active participants	45
Terminated vested participants	12
Retirees and beneficiaries	120
Disabled participants	<u>4</u>
Total	<u><u>181</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions:

The following eligibility and benefit provisions were established and may be amended by an ordinance of the Town Council. Effective July 1, 2001, all new employees of the Town will join the Municipal or Teachers' Plans.

Plan participation commenced on the first day of the month coincident with or following the date of hire, if the employee chose to participate in the pension plan. Elected officials and certified employees of the School Department are not eligible to participate in the pension plan.

The pension plan provides pension, disability and death benefits. A Police and Fire Department member may retire the first day of the month following the member's completion of twenty years of service. (If the member joined the Fire Department after July 1, 1983, only Fire Department service is used to determine years of service). School Department custodial and clerical members may retire the first day of the month following the member's completion of thirty years of service, but not later than age 65 with five years of service. Public Works members may retire the first day of the month following the completion of thirty years of service, but not later than age 60 with ten years of service. Town Hall members may retire the first day of the month coincident with or following the member's attainment of age 65 with five years of service.

The normal retirement benefit is determined as follows:

- a. Police Department Members - 3% (2½% if less than 20 years of service) of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- b. Fire Department Members - 2.75% of average compensation multiplied by completed years and months of service (total maximum benefit equals 75% of average compensation). If a participant joined the Fire Department after July 1, 1983, only Fire Department service is considered.
- c. School Custodial, Town Hall and School Clerical Members - 2% of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- d. Public Works Members - 2.5% of average compensation multiplied by completed years and months of service. The maximum benefit for employees hired after July 1, 1986 is 70% of average compensation.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

Average compensation is defined as the member's average gross annual earnings during the period of three consecutive years when such average is highest.

In lieu of the normal form of benefit, a Police or Fire member may elect a pension that provides, upon the member's death, for a 67½% contingent annuity payable either to the spouse until remarriage or to dependent children until they attain age 18. Other members may elect a modified cash refund.

Members, other than Police or Fire members, who have completed 10 years of service and are within 5 years of their normal retirement date may elect to retire early. The retirement benefit is determined as stated previously and is reduced by 6% per year for each year preceding the normal retirement date. Working beyond the normal retirement age is allowed if permitted by the applicable collective bargaining agreement and applicable fitness standards are met.

The pension plan includes disability benefits for members who have completed 10 years of service, are totally disabled for 6 months and eligible to receive disability payments under Social Security. The benefit equals the member's annuity accrued to the date of disability and is payable immediately without reduction. For police and fire members, disability benefits are 67% of salary.

The pension plan includes a pre-retirement spouse's benefit as follows:

- a. Police and Fire Members - The pre-retirement benefit equals 67½% of the pension benefit previously described payable until remarriage unless there are dependent children. A member is eligible upon completion of 20 years of service.
- b. Other Members - The pre-retirement benefit equals 50% of the pension benefit previously described reduced by the Contingent Annuitant factor and Early Optional Retirement factor. Members are eligible if they are within 5 years of their normal retirement date and have completed at least 10 years of service.

Death benefits are also provided by the pension plan. The death benefit prior to retirement is a refund of employee accumulation unless a spouse's benefit is payable. In this case the death benefit would be determined as described in the previous paragraph. The death benefit after retirement is determined by the form of annuity chosen by the member.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Town Plan (continued)

Funding policy and contributions:

Contribution requirements are established and may be amended by Town Council ordinance or union contract.

Employees are required to contribute a percentage of their gross pay as follows:

Police	7%
Fire	6%
Public Works	6%
Others	4%

The Town is required to contribute an amount determined in accordance with the actuarial valuation.

Actuarial method and significant assumptions:

Beginning in 2008, the actuarial method used to compute the actuarially determined contribution requirements was changed from the Aggregate Actuarial Cost Method to the Entry Age Normal Method. Under the Entry Age Normal Method, the present value of projected benefits not provided for at the valuation date is the accrued liability. The unfunded accrued liability is being amortized over five years starting with the 2008 actuarial valuation. The actuarial assumptions include: a) 7.5% investment rate of return and b) projected salary increases of 5% per year. Assets used for valuation purposes are equal to the market value. The most recent valuation was performed on July 1, 2008.

Annual pension costs and net benefit obligation:

The actuarially determined employer contribution requirement of \$2,715,725 was determined as described above and was based on an actuarial valuation as of July 1, 2008. The contribution consists of normal cost plus estimated expenses and one year of interest at 7.5%. Total contributions to the pension plan in fiscal 2009 amounted to \$2,791,839, of which \$2,575,587 and \$216,252 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 75.8% and 6.36%, respectively, of covered payroll for the year.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Pension plans (continued):

Town Plan (continued)

Annual pension costs and net benefit obligation (continued):

A summary of annual pension costs, contributions and net pension obligations over the preceding three years is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual pension cost	\$ 2,871,564	\$ 2,625,137	\$ 2,465,612
Actual contributions	<u>(2,791,839)</u>	<u>(2,480,745)</u>	<u>(2,743,486)</u>
Increase (decrease) in net pension obligation	\$ 79,725	\$ 144,392	\$ (277,874)
Net pension obligation, beginning of year	<u>none</u>	<u>none</u>	<u>none</u>
Net pension obligation, end of year	<u>none</u>	<u>none</u>	<u>none</u>
% of annual pension costs contributed	<u>97.22%</u>	<u>94.50%</u>	<u>111.27%</u>

Funded status and funding progress:

As of July 1, 2008, the Town Plan was 84.3% funded. The actuarial accrued liability for benefits was \$51,273,315 and the actuarial value of assets was \$43,215,258, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,058,057. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$3,397,722 and the ratio of the UAAL to the covered payroll was 237.2%. At June 30, 2009, the value of the Plan's assets was \$33,753,313.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial values of Town Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

9. Other postemployment benefits:

In addition to pension benefits, the Town and School Department provide, under the provisions of various union contracts and other employment agreements, postemployment health insurance benefits, or compensation in lieu of postemployment health insurance benefits, to eligible retirees for a specified maximum number of years. Eligibility is determined based on years of service, employee age, and other available health care coverage. The Town and School Department fund these benefits on a pay-as-you-go basis. During the year ended June 30, 2009, expenditures for post-employment benefits totaled \$1,363,519. For the year ended June 30, 2009, 174 participants received such benefits.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. Other postemployment benefits (continued):

The Town engaged an actuary to prepare an actuarial valuation of its postemployment benefits program as of July 1, 2007. The purpose of the valuation was to analyze the current funded position of the Town's postemployment benefits program, determine the level of contributions necessary to assure sound funding, and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties.

The estimated Unfunded Actuarial Liability (UAL) was \$21,552,897 at July 1, 2007, the date of the most recent actuarial valuation. Based on the 2007 valuation, the estimated Normal Cost for fiscal year 2007 was \$396,787; the estimated Amortization of UAL for fiscal year 2009 was \$1,138,903; the estimated Annual Required Contribution (ARC) for fiscal year 2009 was \$1,535,690; the estimated benefit payment for fiscal year 2009 was \$1,285,734 and the estimated increase in annual cost to fund the Plan was \$249,956.

The Town budgeted and set aside funds in fiscal year 2009 totaling \$491,806 (in a nonmajor special revenue fund) for the purpose of funding the UAL. As of June 30, 2009, the Town had set aside a total of \$2,500,343 to fund its UAL. Based upon the July 1, 2007 valuation report, the estimated 2009 ARC is \$1,535,690 and the Town has budgeted funding of \$1,575,851, which is adequate for fiscal year 2009. In fiscal 2010, the Town plans to establish, and remit the accumulated funds to, an Other Postemployment Benefits (OPEB) Trust, which was authorized by the Rhode Island General Assembly on June 26, 2008. By doing so, the Town will be required, and expects, to implement the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

10. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Under the participation agreement, the Town is insured for a maximum of \$5,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage during the year ended June 30, 2009.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. Contingencies:

Litigation:

On November 20, 2003, a road-building contractor engaged by the Town to perform roadway and subsurface utility work submitted a claim against the Town for breach of contract. The Town filed a countersuit for damages resulting from work performed by the contractor in the amount of \$219,215. The contractor has since filed for bankruptcy, and its surety continued the lawsuit against the Town with a claim totaling \$602,145. The parties agreed to a legal settlement and the Town paid \$430,000 to the surety during 2009 to settle this claim. The expenses incurred during 2009 were budgeted for and paid from the General Fund.

On August 28, 2008, the Rhode Island Department of Environmental Management and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called "citizen suit" provisions of the federal Clean Water Act. The complaint alleges that the Town's sanitary sewer and stormwater discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizen's groups seek injunctive relief requiring the Town to cease violation, to remedy the effects of past violations, and to pay appropriate civil penalties and reasonable attorney fees as authorized under the Clean Water Act. The Town believes that a reasonable out-of-court settlement could be potentially reached, but intends to vigorously contest the allegations in the complaint. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and stormwater discharges, and issue the appropriate reports.

In regard to the sanitary sewer system, the alternatives to be evaluated are: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The estimated cost of this evaluation is \$177,000 and is included in the fiscal year 2010 sewer fund operating budget. The Town anticipates receiving the report on this evaluation in the spring of 2011. The cost of implementing one or more of the alternatives cannot be reasonably estimated at this time.

In regard to the stormwater system, the alternatives are: (1) construction of a gravel wetland to manage stormwater for the Newport Avenue catchment area; and (2) redirection of Esplanade Outfall 1 to Esplanade Outfall 2. The estimated cost of this evaluation is \$197,310 and is included in the fiscal year 2010 General Fund operating budget. The Town anticipates receiving the report on this evaluation in the spring of 2011. The estimated probable cost of implementing the most likely alternative is \$3,138,000, based upon a stormwater treatment feasibility study completed by the Town in May 2009. This amount has been recorded as a long-term liability in the government-wide financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. Contingencies (continued):

Other contingencies:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$4,173,000 for the year ended June 30, 2009.

The Town is a party to various other claims, legal actions and complaints. It is not presently possible to determine the outcome of these cases; therefore, no liability has been recorded in the accompanying financial statements. In the opinion of the Town's management and Town Solicitor, these matters cannot be estimated nor can the likelihood of a favorable outcome be determined at this time.

12. Commitments:

Construction commitment:

The Town has active construction projects as of June 30, 2009, including the new police facility, land improvements, residential street paving, and drainage and sanitary sewer upgrades in designated areas of the Town. At June 30, 2009, the Town's commitments with contractors are as follows:

Project	Spent to-date	Remaining commitment
Evergreen Park: Engineering fees for residential street paving, road drainage upgrades, and sanitary sewer upgrades	\$ 2,598,127	\$ 410,527
Police station	8,308,566	156,374
Wave Avenue pump station replacement: Engineering fees and construction	3,121,475	51,890
Totals	<u>\$ 14,028,168</u>	<u>\$ 618,771</u>

The commitments for land improvements, residential street paving and road drainage are funded through general obligation bonds. The commitments for sanitary sewer upgrades are funded through loans from the Rhode Island Clean Water Finance Agency.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. Joint ventures:

Newport County Regional Special Education Program:

The Middletown School Department (MSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. NCRSEP also administers the federally funded IDEA Part B program for each of the towns. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program and such amounts are deducted from the gross annual assessment. MSD's net assessment for 2009 was \$1,551,000. The towns have no equity interest in the net assets of NCRSEP, which totaled approximately \$182,000 at June 30, 2009. Separately audited financial statements are available at Newport County Regional Special Education Program, Elmhurst School – Glen Road, Portsmouth, RI 02871.

The Governmental Health Group of Rhode Island, Inc.:

The Town and MSD participate in a joint venture entitled The Governmental Health Group of Rhode Island, Inc. (the Group). The Group is a not-for-profit organization formed to provide programs of health insurance coverage to Rhode Island cities, towns, and other governmental units. The Group is governed by a Board of Directors.

Upon joining the Group, members execute a member agreement. That document, pursuant to which the Group was established and operates, outlines the rights and responsibilities of both the members and the Group. Members of the Group participate in the Group's health insurance plan administered through Blue Cross Blue Shield of Rhode Island (BCBSRI).

Using the rate calculations prepared by BCBSRI, the Group sets annual contribution rates for the subscribers of each member for each program offered. The Group agreement requires that those contribution rates be set at a level sufficient, in the aggregate, to satisfy the funding requirements of the Group. The contributions of each member are deposited in the General Fund, and are used to pay for claims, reinsurance and all administrative expenses. The Group agreement provides for an annual independent audit of its financial statements.

A member's share of surplus or deficit is equal to the ratio of the member's subscribers (employees and retirees) participating in the Group's plan for each month of the one-year period immediately prior to the member's effective date of termination divided by the sum of all subscribers in the Group for the same period.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. Joint ventures (continued):

The Governmental Health Group of Rhode Island, Inc. (continued):

The Group agreement provides the Group's Board of Directors a discretionary, fully allocable assessment feature with respect to specified circumstances.

After it has been a member of the Group for an initial three-year period, a member may withdraw from the Group by providing the Group's Board of Directors with 90 days notice; liquidated damages would also be assessed at that time. The Group may terminate a member's coverage for failure to pay amounts due.

For the year ended June 30, 2009, the Group generated \$89,498,222 in revenues and net revenue of \$2,159,136. The Group had \$14,017,847 in total assets, and \$8,179,848 in total equity as of June 30, 2009.

The Group retains certain levels of insurance risk and acquires reinsurance for specific losses in excess of \$450,000. As of June 30, 2009, the Group's membership consisted of 25 cities, towns or other governmental units.

Separate financial statements are available at Governmental Health Group of Rhode Island, Inc., c/o RI Interlocal Risk Management Trust, 501 Wampanoag Trail, Suite 301, East Providence, RI 02915.

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 38,059,219	\$ 38,059,219	\$ 38,742,812	\$ 683,593
Intergovernmental	4,498,928	4,163,134	3,412,784	(750,350)
Licenses, permits and fees	1,473,150	1,473,150	1,103,293	(369,857)
Interest and investment	360,000	360,000	159,095	(200,905)
Other revenues	217,427	269,183	310,732	41,549
Total revenues	44,608,724	44,324,686	43,728,716	(595,970)
Expenditures:				
Current:				
General government	3,128,200	3,477,346	3,275,870	201,476
Public safety	8,311,677	8,246,949	8,003,396	243,553
Public works and sanitation	1,554,694	1,808,363	1,772,084	36,279
Planning and inspection	549,820	549,820	468,254	81,566
Library	775,914	775,914	766,620	9,294
Community services	119,501	119,501	118,924	577
Other expenditures	4,310,186	4,756,806	4,484,687	272,119
Grants	450,000	445,488	195,546	249,942
Capital outlay	2,886,338	2,854,731	1,749,860	1,104,871
Debt service	2,683,995	2,629,820	2,629,020	800
Total expenditures	24,770,325	25,664,738	23,464,261	2,200,477
Excess of revenues over expenditures, budgetary basis	19,838,399	18,659,948	20,264,455	1,604,507
Other financing sources (uses):				
Transfers from other funds	2,704,124	2,918,889	2,294,862	(624,027)
Transfers to other funds	(23,707,625)	(23,707,625)	(23,759,381)	(51,756)
Reappropriated fund balance	740,102	1,703,788	1,703,788	-
Proceeds from capital leases	425,000	425,000	399,690	(25,310)
Total other financing sources (uses)	(19,838,399)	(18,659,948)	(19,361,041)	(701,093)
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	\$ -	\$ -	903,414	\$ 903,414
Adjustments of budgetary basis to U.S. GAAP basis			(1,495,469)	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(592,055)	
Net assets, beginning of year			9,533,552	
Net assets, end of year			<u>\$ 8,941,497</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 13,295,635	\$ 13,589,929	\$ 13,419,804	\$ (170,125)
Fees for service	933,831	933,831	784,404	(149,427)
Other revenues	114,000	177,201	181,785	4,584
Total revenues	14,343,466	14,700,961	14,385,993	(314,968)
Expenditures:				
Current:				
Salaries	20,463,740	20,690,884	20,227,813	\$ (463,071)
Employee benefits	6,885,420	6,890,932	6,461,617	\$ (429,315)
Purchased services	6,722,832	6,799,827	7,342,984	\$ 543,157
Supplies and materials	948,592	996,436	818,261	\$ (178,175)
Other	35,976	35,976	75,928	\$ 39,952
Capital expenditures	296,817	296,817	1,302,344	\$ 1,005,527
Debt service	860,110	860,110	-	\$ (860,110)
Total expenditures	36,213,487	36,570,982	36,228,947	(342,035)
Excess (deficiency) of revenues over expenditures, budgetary basis	(21,870,021)	(21,870,021)	(21,842,954)	27,067
Other financing sources:				
Transfer from other funds	21,570,021	21,570,021	22,031,180	461,159
Reappropriated fund balance	300,000	300,000	300,000	-
Total other financing sources	21,870,021	21,870,021	22,331,180	461,159
Excess of revenues and other financing sources over expenditures, budgetary basis	\$ -	\$ -	488,226	\$ 488,226
Adjustment of budgetary basis to U.S. GAAP basis:				
Reappropriated fund balance			(300,000)	
Excess of revenues and other financing sources over expenditures, U.S. GAAP basis			188,226	
Net assets, beginning of year			1,966,204	
Net assets, end of year			\$ 2,154,430	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGET COMPARISON

YEAR ENDED JUNE 30, 2009

Budget preparation and budgetary basis of accounting:

In accordance with Town Charter, the Town Administrator must present to the Town Council a recommended annual budget for the operations of all municipal departments no later than 90 days prior to the commencement of each fiscal year. The recommended budget must include an appropriation to fund school expenditures in excess of their anticipated revenues as requested by the Superintendent and approved by the School Committee. Estimates of sums expected to become available from federal and state grants for the support of the public schools shall be included in the total requested for school expenditures. The Town Council shall appropriate these funds for expenditure by the School Committee, and shall appropriate such additional funds from local tax revenues as may be required to meet the total school budget which the Town Council approves. The School Committee shall not have the authority to obligate the Town financially beyond the total budgetary amount voted by the Town Council. The Town Council can change only the total amount of the School Committee’s recommended budget. The Town Council can increase the total amount of the total budget, as presented by the Town Administrator, only if it makes provisions for increasing anticipated revenue to match increases in expenditures in the budget.

The General Fund and the School Department annual operating budgets are in conformity with the legally enacted budgetary basis. The legally enacted budgetary basis differs from accounting principles generally accepted in the United States (U.S. GAAP) in several regards. Budgets are adopted on the modified accrual basis with certain exceptions. Budgetary revenues may include reappropriations from fund equity previously recognized under U.S. GAAP. Budgetary expenditures and expenses are recognized when legally binding orders (encumbrances) are placed. Enterprise fund budgetary expenses include expenses for fixed asset additions, debt service issuance costs and debt service principal payments not recognized under U.S. GAAP but exclude depreciation and amortization, U.S. GAAP basis expenses.

Adjustments from the budgetary basis to the U.S. GAAP basis of accounting are as follows:

	<u>General Fund</u>	<u>School Department</u>
Reappropriated fund equity	\$ (1,703,788)	\$ (300,000)
Change in reserve for encumbrances	<u>208,319</u>	<u> </u>
Total adjustments	<u><u>\$ (1,495,469)</u></u>	<u><u>\$ (300,000)</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGET COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2009

Budget compliance:

Costs of operations for all departments, offices and agencies established within the Town Charter must be appropriated through an annual budget ordinance. These departments are presented within the General Fund and the School Department Municipal budgetary control is legally enforced at the department level. Appropriation transfers between departments require approval by five of the seven-member Town Council. Other appropriation increases require both the establishment of a funding source and passage of a budget amendment ordinance. Unencumbered and unexpended appropriations lapse at fiscal year-end.

TOWN OF MIDDLETOWN, RHODE ISLAND
MUNICIPAL PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2009

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
<i>General employee unit:</i>						
June 30, 2005	\$ 7,733,571	\$ 10,809,459	\$ 3,075,888	\$ 71.5%	\$ 4,199,793	\$ 73.2%
June 30, 2006	8,555,676	12,597,772	4,042,096	67.9%	4,348,342	93.0%
June 30, 2007	10,238,856	13,842,877	3,604,020	74.0%	4,674,046	77.1%
<i>Police and fire unit:</i>						
June 30, 2005	193,222	164,831	(28,391)	117.2%	279,513	(10.2%)
June 30, 2006	338,618	260,312	(78,306)	130.1%	661,230	(11.8%)
June 30, 2007	583,149	536,554	(46,595)	108.7%	1,113,023	(4.2%)

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2009

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
July 1, 2007	\$ 41,266,807	\$ 49,694,529	\$ 8,427,722	83%	\$ 3,560,276	237%
July 1, 2008	43,215,258	51,273,315	8,058,057	84.3%	3,397,722	237%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDED JUNE 30, 2009

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 2,871,564	97.22%
2008	2,625,137	94.50%
2007	2,465,612	111.27%
2006	2,693,913	95.23%
2005	2,427,677	97.97%
2004	2,038,820	100.89%
2003	1,431,456	107.88%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

The information presented in the required supplementary schedule was determined as part of the annual actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation (1) follows:

Valuation date	July 1, 2008
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	The unfunded accrued liability is being amortized over 5 years beginning with the 2008 actuarial valuation.
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5% per annum
Cost-of-living adjustments	N/A

(1) There have been changes in the above actuarial assumptions or methods from the July 1, 2007 actuarial valuation.

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2009

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2008</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2009</u>
2008		\$ 38,490,165	\$ (135,099)	\$ 38,355,066	\$ 36,994,485	\$ 1,360,581
2007	\$ 1,118,299		(22,169)	1,096,130	1,029,930	66,200
2006	55,942		(9,853)	46,089	9,867	36,222
2005	33,777		(1,650)	32,127	3,041	29,086
2004	26,019		(242)	25,777	1,375	24,402
2003	24,445		(582)	23,863	278	23,585
2002	30,644		(4,344)	26,300	78	26,222
2001	31,303		(7,536)	23,767	373	23,394
2000	39,002		(8,965)	30,037	34	30,003
1999	1,900		-	1,900		1,900
1998	2,491		-	2,491	639	1,852
	<u>\$ 1,363,822</u>	<u>\$ 38,490,165</u>	<u>\$ (190,440)</u>	<u>\$ 39,663,547</u>	<u>\$ 38,040,100</u>	1,623,447
				Less allowance for doubtful accounts		<u>(229,191)</u>
						<u>\$ 1,394,256</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)

YEAR ENDED JUNE 30, 2009

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 3,028,414,900	\$ 36,868,520
Motor vehicles	141,000,300	2,263,055
Tangible personal	105,895,997	1,220,308
 Total	 3,275,311,197	 40,351,883
 Exemptions	 135,910,733	 1,861,718
 Current year assessment	 <u>\$ 3,139,400,464</u>	 <u>\$ 38,490,165</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 38,040,100
Revenue collected within 60 days subsequent to year ended June 30, 2009	<u>904,174</u>
	38,944,274
 Prior year revenue received in current year	 <u>(493,911)</u>
 Current year real estate and personal property tax revenue	 <u>\$ 38,450,363</u>